

Flexible Choices Program

Special Note to City of Milwaukee Employees and Spouses about INCREASING YOUR TAKE-HOME PAY October 1, 2005

Dear Employee:

The City of Milwaukee is pleased to announce that the ***Flexible Choices Program*** for out-of-pocket medical expenses and for dependent care expenses will be continued during 2006 with ***Process Works, Inc.*** (formerly *The Flex Company of America*) as the administrator. The ***Flexible Choices Program*** allows you to **increase your take-home pay**. For the 800 plus employees who currently participate, you already know the advantages of having the extra dollars available.

You can see the "How to Enroll" section and re-enroll for 2006 by calling the appropriate phone number or by logging on the Internet. For those employees who are not currently enrolled, I would urge you to read through the material, call ***Process Works*** if you have any questions or visit them at one of the open enrollment fairs. This program will also **increase your take-home pay!**

The program allows your out-of-pocket medical expenses and childcare/dependent care

expenses to be deducted from your paycheck on a pre-tax basis. That means your payroll deductions for those expenses are never counted as income thereby **increasing your take-home pay**. Your tax-free payroll deductions for these expenses earn you 27% to 43% in income tax savings depending on your income and tax situation.

If you choose to participate in the program, it does not change your health benefits. It only affects the way that you pay your out-of-pocket medical expenses and your childcare/dependent care expenses. Your contribution is taken out of each paycheck before taxes and placed into a tax-free account until you have a qualified expense. Because you would incur these expenses anyway, this is a way you can **lower your income taxes at NO** additional cost. There are two separate parts to the City of Milwaukee's ***Flexible Choices Program***.

1. Out-of-Pocket Medical Expenses: Annual maximum of \$3,000

Your participation in this part of the program is your decision. Your contribution to this account should be based upon your expected medical costs. For example, the following types of expenses would qualify:

- charges not paid by your medical plan for prescription drugs (the 20% co-insurance for persons in the City's Basic Plan or Management employees selecting an HMO, or for all other employees the \$4 and \$8 costs for persons in an HMO);
- glasses or contact lenses;
- annual plan deductibles & co-pays for persons in the City's Basic Plan & Basic Plan Tier 1 and Tier 2;
- Dental co-insurance or co-pays not covered by insurance to name a few.

2. Childcare/Dependent Care Expenses: Annual maximum of \$5,000 (depends on filing status)

Your participation in this part of the program is your decision. In order to decide you must balance the tax savings from this benefit versus the tax credit on your personal income tax return. Your contribution to this account should be based upon your expected childcare expenses. Your contribution is capped at \$5,000 per year for one or more children or \$2,500 if filing separately.

Enclosed is information about How to Enroll. New employees can enroll 30 days after their City Start Date. **Enrollment can be done by phone or through the Internet.** As with all things, there are some stipulations for you to consider before making your election decision. Here are the plan's limitations:

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| <ul style="list-style-type: none">✓ A maximum of \$5,000 can be deducted pre-tax for child and dependent care expenses, or \$2,500 if you are married and filing separately. Compare your savings in taking the dependent care credit on your annual tax return against the pre-tax savings before making your decision.✓ The amount you elect to deduct cannot be changed or revoked at will. Election changes are permitted if you experience a qualified change in status. Detailed explanations of the qualified changes are given in the IRS regulations available through <i>Process Works</i> Online Internet site. | <ul style="list-style-type: none">✓ Overestimated out-of-pocket medical expenses cannot be refunded at the end of the plan year or rolled over to the next plan year. It pays to be confident about the amount of out-of-pocket medical expenses you expect to incur.✓ The amount of out-of-pocket medical expense savings you elect to have payroll deducted during the plan year is limited to \$3,000 in your Summary Plan Description. |
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Don't let the fear of losing money prevent you from taking advantage of the much more powerful benefits of participating in this plan. The percentage of income saved on taxes usually greatly exceeds the minimal year-end account balances, if there are any at all. Take time now to decide how you can reduce your taxable income while saving tax-free for expenses you are going to incur for the new plan year.

For information on **IRS Regulation Changes** for the Plan Year Beginning in 2005, please check the *Process Works* web site at www.myprocessworks.com. The site also has copies of IRS Publication 502 for Medical Expenses and IRS Publication 503 for Child and Dependent Care Accounts. *Process Works* claim forms can be printed from the same web site.

Highlights of the City of Milwaukee Flexible Choices Program

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| <ul style="list-style-type: none">◆ Daily Claims Reimbursement: Checks are prepared and mailed to participants' homes.◆ Internet submission of claims: Conveniently submit your claims online at www.myprocessworks.com◆ 24 hours a day, 7-days-a-week access to information about account status claims received and reimbursement checks issues. By simply logging into www.myprocessworks.com or by using | <ul style="list-style-type: none">a touch-tone phone participants can access up-to-date information regarding their accounts.◆ If you are already enrolled, remember you must re-enroll each year for this Flexible Choices.◆ For more information about the City of Milwaukee's Flexible Choices Program, call <i>Process Works</i> at 1-262-827-7030 or 1-888-868-2492 |
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